J. M. Hosiery & Co. Limited

March 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**1.60**	**CARE A- (CWD) (Single A Minus) (Under Credit watch with Developing Implications)**	**Assigned**
Long Term Bank Facilities	**110.00**	**CARE A- (CWD) (Single A Minus) (Under Credit watch with Developing Implications)**	**Continues to be on Credit watch with Developing Implications**
Total Facilities	**111.60 (Rs. One Hundred Eleven Crore and Sixty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to J. M. Hosiery & Co. Limited (JMHCL) continues to remain on credit watch with developing implications due to the approval of a Composite Scheme of Arrangement by Lux Industries Limited's (LIL) Board of Directors regarding merger of JMHCL and Ebell Fashions Private Limited (EFPL) with LIL. Upon the Scheme becoming effective and in consideration of the merger, LIL will offer 29 equity shares of Rs.2 each fully paid up of LIL for every 100 equity shares of Rs.10 each fully paid up of JMHCL and 1142 equity shares of Rs.2 each fully paid up of LIL for every 100 equity shares of Rs.10 each fully paid up of EFPL. The scheme has been approved by SEBI vide order date March 05, 2020. The proposal is now pending before NCLT for approval. CARE will continue to monitor the developments in this regard and will take a view on the rating once the merger process is completed.

The rating assigned to the Bank Facilities of JMHCL continues to derive strength from the long track record and significant experience of the promoters, Lux group's integrated nature of operations and wide product range with established brand presence in the hosiery industry and established selling & marketing arrangements of the group. The rating also takes into account the satisfactory financial performance in FY20 (refers to the period from April 01 to March 31); albeit decline in profitability margin due to dampen effect of COVID-19 with growth witnessed from 9MFY21 onwards and improvement in capital structure. The rating, however, continues to be constrained by the working capital intensive nature of operations, exposure to volatility in the prices of raw materials and intense competition.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

•Growth in revenue by 20% and PBILDT margin over 15% on a sustained basis coupled with improvement in GCA

• Improvement in gearing ratio below 0.50x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

• Decline in revenue by ~15% coupled with delay in PBILDT margin below 9% on a sustained basis.

• Any debt laden capex resulting in deterioration of overall gearing ratio beyond 1.2x on a sustained basis.

• Deterioration in working capital cycle beyond 250 days on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and significant experience of promoter in the hosiery industry

JHMCL is a part of the Lux group which traces its origins to Mr Girdharilalji Todi who had started the business of manufacturing innerwear in 1957. His sons, Mr Ashok Todi and Mr Pradeep Todi, the current promoters, also have an experience of four decades in the hosiery business.

Lux group's integrated nature of operations

The major entities of the group are LIL, JMHCL, EFPL and S. D. International (SDI) and they share a common marketing and advertisement network, along with common suppliers. LIL's focus is on the men's innerwear and outerwear including thermal wear with its major brands being ONN, Lux Cozi, Lux Classic, Lux Venus, Lux Cottswool, Inferno. While JMHCL is more focused on women's innerwear and outerwear and markets its products under the brand names GenX, KoolZ, Touch, Karishma and Target, EFPL focuses on women's ethnic bottom wear under the brand name Lux Lyra. SDI focuses on kids wear for export markets.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Wide product range of the group coupled with established brand presence in hosiery industry
The Lux group has over the years broadened its product portfolio, which now spans innerwear products for men, women as well as children, across all price ranges; ethnic bottom wear, thermal wear, socks and casual outer wears. Furthermore, the group has aggressively pursued various marketing and promotional activities to build a strong brand name.

Aggressive marketing spends and strong distribution network
Besides branding which has created a demand pull, the group is also aggressively expanding its distribution network and it had over 800 distributors and retailers and 15 exclusive brand outlets (EBOs) across the country. The advertisement expenditure reduced from 8.67% of sales in FY18 to 6.42% in FY19 as the company is benefitting from the brand, signifying higher sales at lower incremental ad-spend. However, in FY20, the advertisement expenditure increased to 9.07% as a % of sales in view of increased promotional activities to boost sales. Selling expense as a % of sales reduced in FY20.

Wide geographical presence coupled with low customer concentration risk albeit lower penetration in Southern & Western India
JMHCL has presence across all regions albeit lower presence in Southern and Western region in India. Central region contributed 29% of sales in FY20 followed by Northern and Eastern regions with 26% and 23% respective contribution in sales of FY20. Furthermore, sales to top 5 customers contributed approximately 9% of the net sales in FY20 and 9MFY21, signifying low customer concentration risk.

Satisfactory financial performance in FY20 and 9MFY21; albeit decline in profitability margin
The scale of operations of the company witnessed de-growth during FY20 wherein the operating income of the company de-grew by 6% in FY20 (vis-à-vis growth of 12% in FY19 over FY18). The same was primarily on account of postponement of few batch orders in the month of March 2020 due to announcement of lockdown. Low sales combined with increase in employee cost and advertisement expenses resulted in decline in PBDILT level to Rs.24.92 crore in FY20 vis-à-vis Rs.36.10 crore in FY19. Consequently, company reported PAT of Rs.11.32 crore in FY20 vis-à-vis Rs.18.51 crore in FY19. The GCA of the company stood at Rs.12.59 crore in FY20 against debt repayment obligation of Re.0.46 crore.
Due to almost negligible sales in Q1FY21 and slower ramp up of production leading to inability to fulfil the orders, the company's sales volume and realization got affected in current year. However, with partial resumption of operation, the demand picked up and JMHCL achieved sales of Rs.253 crore in 9MFY21 and PAT of Rs.15.12 crore against Rs.165 crore and PAT of Rs.10 crore in H1FY20. In 9MFY21, the company reported GCA of Rs.16.22 crore against debt repayment obligation of Rs.0.32 crore.

Improvement in capital structure
The company's overall gearing ratio improved to 0.74x as on March 31, 2020 vis-à-vis 0.91x as on March 31, 2019 due to lower working capital utilization and accretion of profits to net-worth. The interest coverage ratio however, deteriorated slightly from 4.11x in FY19 to 3.74x in FY20 due to lower EBITDA despite decrease in interest expenses during the year (Rs.6.66 crore in FY20 vis-à-vis Rs.8.79 crore in FY19). Consequently, Total debt to GCA also deteriorated marginally to 7.12x as on March 31, 2020 from 5.05x as on March 31, 2019 due to lower cash accruals despite decline in total borrowings.
As on December 31, 2020, the total debt of the company stood at Rs.42.21 crore. Further, till December 31, 2020, the company has repaid Rs.0.32 crore of term loan obligations. The company has also been disbursed new term loan in the month of February 2021 for purchase of new machinery.

Key Rating Weaknesses

Working capital intensive nature of operations
The operations of the company are working capital intensive due to high inventory holding and credit extended to the distributors. The working capital cycle of the company continued to remain high at 247 days in FY20 against 221 days in FY19. The increase in working capital days was on account of increase in inventory days to 189 days in FY20 against 164 days in FY19 due to increase in FG days to 84 on account imposition of lockdown towards the Mid-March 2020 which led lower sales. However, out of total debtors outstanding for more than 6 months, the company has realised significant amount which resulted in improvement in the collection period. Out of the total debtors, 22% of the debtors is receivables from group companies in FY19 and FY20. JMHCL is utilizing the lockdown period as an opportunity to liquidate its receivables by supplying to the distributors only after payment of dues. As there is pent up demand in the market, this gives the company a bargaining power over the distributors. The average working capital utilisation stood at 45% for the last twelve months ending February 28, 2021.

Raw material price fluctuation risk
Raw material (including purchases of traded goods) cost formed about 50% of the total cost of sales during FY20 vis-à-vis 47% in FY19 due to increase in Packing material along with Yarn Prices. The major raw materials for JMHCL are yarn/knitted yarn, the prices of which are dependent on the prices of cotton which being commodity in nature have volatile price movements. However, as the group procures yarn in bulk quantities it is able to procure the same at a discount to the market price. Moreover, any increase in raw material costs is ultimately passed on to the customers, though with a time lag. Majority of JMHCL's production is through job work. However, knitting is done through its own manufacturing facilities or under its strict supervision. Accordingly, by emphasizing on quality, LUX group has been able to establish its brand across diversified product segments.

Industry characterized by intense competition

The textile industry has two broad segments. The first is the unorganized sectors which comprise of small-scale handicraft units and using traditional tools and methods. The second is the organized sector consisting of spinning, apparel and garments segment which applies modern machinery and techniques to avail the advantage of economies of scale. With implementation of GST, the organized sector has benefitted in terms of market share.

There are about 10 key players in the branded innerwear segment. LIL as a group has grown over the last decade and chartered a decent market share of 15%. The management intends to leverage the growing brand equity of LUX to mitigate competition to an extent.

Liquidity: Strong

The liquidity of the company is marked by strong cash accruals of Rs.12.59 crore against negligible repayment obligations of Rs.0.50 crore. Till December 31, 2020, the company repaid Rs.0.32 crore towards its debt repayment obligations against GCA of Rs.16 crore. The average working capital utilization over the period of last 12 months ended February 28, 2021 was 45%. The company has cash & fixed deposit of Rs.6 crore and Rs.4.20 crore as on March 31, 2020 and December 31, 2020. The company has been able to manage its working capital efficiently with realization from debtors which stood at Rs.82 crore as on December 31, 2020 vis-à-vis Rs.95 crore as on March 31, 2020. Further the company has confirmed that they have not opted for moratorium under RBI COVID-19 package.

Analytical approach: Standalone while factoring linkages with the LUX group.

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
Factoring Linkages in Ratings
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities
CARE's methodology for manufacturing companies
CARE's methodology for cotton textile manufacturing

About the Company

JMHCL was originally incorporated as Todi Hosiery Private Limited in October'2004 and subsequently its name was changed to Todi Hosiery Limited in April 2012. It acquired its present name in July'2015. JMHCL is part of the Lux group, based out of Kolkata. JMHCL is engaged in manufacturing and marketing of hosiery undergarments. JMHCL is focused on women innerwear and outerwear and markets its products under the brand names of GenX, KoolZ, Touch, Karishma and Target.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	328.66	309.87
PBILDT	36.10	24.92
PAT	18.51	11.32
Overall gearing (times)	0.91	0.74
Interest coverage (times)	4.11	3.74

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	110.00	CARE A- (CWD)
Fund-based - LT-Term Loan	-	-	-	December 2025	1.60	CARE A- (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	110.00	CARE A- (CWD)	-	1)CARE A- (CWD) (14-Feb-20)	1)CARE A- (CWD) (29-Mar-19) 2)CARE A- (CWD) (05-Jul-18)	1)CARE A-; Stable (05-Feb-18)
2.	Fund-based - LT-Term Loan	LT	1.60	CARE A- (CWD)	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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